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C O N F I D E N T I A L KABUL 005250

SIPDIS

STATE FOR SA/FO, SA/A, EB
NSC FOR THARRIMAN, KAMEND
TREASURY FOR APARAMESWARAN
COMMERCE FOR AADLER

E.O. 12958: DECL: 12/26/2010

TAGS: [ECON](#) [EFIN](#) [EAI](#) [ETRD](#) [AF](#)

SUBJECT: IMPACT OF SMUGGLING ON AFGHAN INDUSTRY: HERAT
GYPSUM TRADE

Classified By: A/DCM ANGUS SIMMONS. REASONS 1.4 (B,D)

1. (SBU) PRT Herat State and USAID officers visited a Herat gypsum manufacturer who had been forced to end production due to a flood of lower-priced Iranian gypsum being dumped on the Afghan market. The GoA, in theory, prohibits gypsum imports (used in plaster, whitewash, chalk, etc.) in order, to protect Afghan manufacturers. In practice, the prohibition is observed in the breach. The wholesale price in Herat of Iranian gypsum is about 10% lower than the cost of production for the Afghan product, making it more attractive for Herati wholesalers who then receive a higher profit margin in the retail market. The factory owner with whom we spoke believed the Iranians were targeting Afghan gypsum manufacturers like himself in order to eliminate competition.

2. (SBU) Why is Afghan gypsum more expensive? Electricity costs for one. The price of diesel in Herat (AF32/lt) USD 0.65/lt) for running generators is 10 times higher than in Iran. And running off the generator, the owner told us, is just 10-15% more costly than off the grid. While the Iranian company allegedly receives GOI subsidies, the Afghan company pays a 5% tax on its raw materials, purchased from the government-owned quarry, even though the company itself must mine and transport the rock. The industrialist alleged that the cascade of Iranian gypsum is part of a barter arrangement, most likely for Afghan opium.

3. (SBU) Out of 100 employees, 40 have already been fired since operations were halted. On site, about 16,000 bags of gypsum inventory lie unsold. Unprocessed gypsum rock, valued at over USD100,000.00 are also at the factory location.

4. (C) According to informed sources, the illegal import of gypsum is being facilitated by provincial political leaders, up to the Governor. One report stated that Herat Governor Anwari ordered the Head of the Border Police to allow gypsum to enter without inspection. Another report told of a shipment of over 15,000 tons of gypsum consigned to the PRT in Qal-I Naw, Badghis. (We have heard other examples of imports illegally consigned to tax exempt entities, including to PRTs, UN agencies, and NGOs.)

Comment

5. (C) Gypsum is a bulk product, heavy and difficult to hide, and unlikely to be smuggled over difficult terrain or on pack animals. It is entering Afghanistan under the eyes of Afghan customs officials who when asked, acknowledged that its importation is prohibited by the Ministry of Trade. This is just one example of Afghanistan's corrupt customs system, and how local investment is being crushed by predatory Iranian trade practices. But the gypsum trade is also evidence that the rot, permitting flagrant violation of Afghan law, runs above and beyond local customs officials.
NEUMANN